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FM AMEMBASSY CARACAS  
TO RUEHC/SECSTATE WASHDC 7182  
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RUEHAC/AMEMBASSY ASUNCION 0729  
RUEHBO/AMEMBASSY BOGOTA 7140  
RUEHBR/AMEMBASSY BRASILIA 5826  
RUEHBU/AMEMBASSY BUENOS AIRES 1521  
RUEHLP/AMEMBASSY LA PAZ 2413  
RUEHPE/AMEMBASSY LIMA 0668  
RUEHSP/AMEMBASSY PORT OF SPAIN 3293  
RUEHQT/AMEMBASSY QUITO 2499  
RUEHSG/AMEMBASSY SANTIAGO 3829  
RUEHDG/AMEMBASSY SANTO DOMINGO 0348  
RUMIAAA/HQ USSOUTHCOM MIAMI FL  
RHEHAAA/WHITEHOUSE WASHDC  
RHEBAAA/DEPT OF ENERGY  
RUCNDT/USMISSION USUN NEW YORK 0656  
RUCPDO/DEPT OF COMMERCE  
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C O N F I D E N T I A L SECTION 01 OF 03 CARACAS 003529

SIPDIS

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ENERGY FOR CDAY, DPUMPHREY, AND ALOCKWOOD  
NSC FOR DTOMLINSON

E.O. 12958: DECL: 10/27/2016

TAGS: [ECON](#) [ENRG](#) [EPET](#) [EINV](#) [VE](#)

SUBJECT: CHEVRON'S TAKE ON VENEZUELA

REF: CARACAS 3311

Classified By: Acting Economic Counselor Shawn E. Flatt for Reason 1.4  
(D)

11. (C) SUMMARY: The BRV is serious about maintaining OPEC production cuts. PDVSA owes Chevron USD 800 million in operating expenses for the Boscan field and seems incapable of paying operators of the joint ventures in a systematic way. Chevron has met with Rosales advisors and given advice on hydrocarbon policies to the Rosales team. The BRV has been actively consulting Iran on advice regarding how to evade USG sanctions. END SUMMARY

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OPEC CUTS  
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12. (C) Chevron Latin America President Ali Moshiri (strictly protect throughout) met with the DCM on November 30 for a wide-ranging discussion on the December 3 elections and the oil sector. Moshiri began the conversation by stating that the BRV is quite serious about implementing production cuts in order to comply with OPEC production cuts. Moshiri characterized the policy as "ridiculous" given the fact that Venezuela's actual production is nowhere near its OPEC quota. Despite claiming that Chevron would not cut production at the Hamaca strategic association (Reftel), Moshiri stated that Hamaca has instituted a 17,000 barrel per day production cut.

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JOINT VENTURES  
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13. (C) Moshiri complained that PDVSA owes Chevron USD 800 million for its share of operating expenses in PetroBoscan, the joint venture that runs the Boscan asphalt field. He stated that Chevron would not continue loaning funds to PetroBoscan starting this month. Chevron did not have any problem advancing funds when it was operating Boscan under an

operating service agreement since it received interest on its loans. However, now that Boscan is being run by a joint venture that is a separate legal entity, Chevron, as a shareholder, does not receive any benefit from loaning PetroBoscan funds for operating expenses. Moshiri said he was very concerned that although the BRV has tremendous amounts of money, it was amassing large liabilities at a rapid rate. He was not sure if the BRV was aware of how quickly its liabilities were increasing.

14. (C) Moshiri stated that the BRV and PDVSA seem to be incapable of making payments in a systematic manner. He said smaller companies that are operating joint venture fields have come to him for advice on how to get PDVSA to reimburse them for operating expenses. He said he was not sure what would happen to smaller companies, particularly local ones, since they could not afford to carry the operating "loans" for a significant period of time. Moshiri opined that the BRV and PDVSA may try to merge all of the smaller Venezuelan firms into one company to operate the various joint venture fields. (NOTE: An energy attorney at a Venezuelan firm told Petroleum Attache (Petatt) on November 30 that she did not believe that any of the private sector firms in the joint ventures had been paid since April. The attorney also stated that none of the joint ventures have had their budgets approved for this year. END NOTE)

15. (C) Chevron has decided that it will not move employees to its PetroBoscan joint venture due to the poor salaries the joint ventures are offering. According to Moshiri, Shell employees were offered one half of their salaries if they transferred to Shell's joint venture with PDVSA. As a

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result, Chevron has decided to second employees to PetroBoscan and pay the salary difference. Moshiri stated Chevron will gradually remove its seconded employees from the joint venture. He opined that PDVSA was offering low salaries to joint venture employees due to cash flow problems.

16. (C) When asked about the conversion of the strategic associations to joint ventures, Moshiri stated he did not believe any of the companies would sign a memorandum of understanding by the end of the year. He also opined that Total would be the first of the strategic association partners to reach an agreement with the BRV.

17. (C) Moshiri was clearly frustrated with both the BRV and PDVSA. In addition to his comments regarding PDVSA's inability to pay joint venture partners, he complained that it has been impossible to deal with PDVSA for the past four to five weeks since PDVSA officials are focused election campaigning. He also said PDVSA tried to force Chevron employees to march in Chavez campaign rallies. Chevron successfully blocked the attempts. (COMMENT: As PDVSA management focused on election campaigning, operations continue to suffer. For example, the energy attorney told Petatt that her husband works for a telecom company that supplies equipment to PDVSA. A number of young employees run the El Palito refinery's telecommunications systems. However, PDVSA has a back-up group composed of members of the National Guard who are to take over if the PDVSA employees do not show sufficient loyalty to the BRV. Recently, one of the soldiers cut all of the cables to the refinery by accident. As a result, the refinery's telephones and computer equipment that monitored operations went down. It took three days to repair the cables and restore telecommunications services. END COMMENT)

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ELECTION  
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18. (C) Moshiri said he has met with members of the Rosales team and offered them advice on oil policy. He stated Rosales should create a new agency that monitors PDVSA and reports to the Energy Ministry. He stated Brazil has a

similar regulatory structure. PDVSA should be treated as a national oil company. It should only focus producing oil and not handle relations with the private sector companies. The new agency would take over dealings with the private sector. Chevron would be "very comfortable" with a Rosales administration and views Rosales as being "hands-off" in terms of hydrocarbon policy.

¶9. (C) Moshiri noted that he has warned the Rosales team not to fire PDVSA employees since this would only create a "second, old PDVSA". He warned the team not to mix the private sector with PDVSA's problems. He also warned the team that it would take at least two years to successfully integrate returning "old" PDVSA employees with current employees.

¶10. (C) When asked about a Chavez win, Moshiri replied Chevron's first priority would be to protect its technology. He said Chevron did not want to transfer technology. If pushed, Chevron would insist on determining the technology's fair market value. In addition, Chevron would request an opinion from the U.S. Treasury on the legality of transferring the technology.

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IRAN  
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¶11. (C) Moshiri claimed that the Chavez administration has been asking Iranian officials how it has managed to live

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under U.S. sanctions. Chavez truly believes that U.S. sanctions are inevitable. He also acts as if sanctions are a badge of honor. Moshiri stated Chavez does not want to raise the standard of living in Venezuela but rather level it. Sanctions are an effective way to reach this goal. Moreover, USG sanctions would give Chavez the opportunity to deepen his efforts to unite Venezuela against an "external threat." (COMMENT: Chavez is not the only member of his administration that believes sanctions are inevitable. A Baker Hughes executive recently told Petatt that he was told by a senior PDVSA official that PDVSA was going to actively seek additional suppliers of drill bits since Baker Hughes would eventually be unable to sell to the BRV due to presumed upcoming U.S. sanctions. The PDVSA official, who was a retired military officer, repeatedly mentioned the ban on the sale of F-16 replacement parts to Venezuela and stated it was clear evidence that the U.S. planned on implementing sanctions. END COMMENT)

¶12. (C) COMMENT: Moshiri has good relations with both the BRV and the Iranian community in Venezuela. We have no reason to doubt his comments regarding the BRV's discussions with Iranian officials regarding sanctions. It is not clear, however, if the BRV is actually acting on the Iranians' advice. According to the energy attorney, a Petropars executive recently told her that the Venezuelans do not understand that they can completely control their hydrocarbon sector by controlling marketing rather than actual operations. In other words, by forcing private sector companies to sell their production to PDVSA, the BRV can control its oil sector just as effectively as it could by controlling the operations of each field in Venezuela. The Petropars executive stated it took Iran twenty years to learn the lesson. The energy attorney indicated that the Petropars executive did not think that the BRV was going to learn the lesson anytime soon. END COMMENT

BROWNFIELD